International Monetary and Financial Committee

Seventeenth Meeting
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Statement by Mr. Paul Toungui
Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon

On behalf of Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Dem. Rep. of Congo, Rep.of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

Statement by His Excellency Paul Toungui, Minister of State
Minister of Economy, Finance, Budget, and Privatization

I. The world economy and the financial markets

We are very pleased to be meeting in this seventeenth meeting of the International Monetary and Financial Committee, which is taking place in difficult economic and financial circumstances, with heightened uncertainties and diminished growth prospects.

Disturbances on the financial markets and their impact on the real economy have intensified the risks to the world economic outlook. These challenges compound the existing macroeconomic imbalances. Risks related to the petroleum market have also increased. Most of the world's economies are affected, but the low-income countries are particularly hard hit with sizable budgetary implications and effects on the most vulnerable population groups, owing to the spillover effect of high oil prices and inflationary pressures.

We share the view that the recent liquidity injections by the major central banks and the ongoing efforts to ease monetary conditions by lowering interest rates are appropriate. A cooperative approach to managing both the current crisis and global imbalances should continue to be taken.

Regarding the IMF in particular, we agree that the Fund has a unique role to play in the fine-tuning of standards governing macroeconomic accounting and risk management, and, of course, in macroeconomic surveillance. Accordingly, the Fund should play a more active role in preventing and solving financial crises, by gaining a deeper understanding of the links between financial sectors and the real economy, as well as cross-border financial ties. We also support the idea that the IMF should share its analyses of these links and the associated risks with national regulatory authorities and institutions.

For low-income countries, and those in sub-Saharan Africa in particular, on whose behalf I am making an urgent appeal to the international community, there are still considerable risks linked to the sharp rise in oil, energy, and food prices, which seriously threaten domestic demand and economic activity, including as a result of a possible tightening of monetary policy. If care is not taken, these unprecedented price trends, coupled with the significant drop in the value of the U.S. dollar—the currency of payment for those countries' exports—could jeopardize the progress those countries have made toward achieving macroeconomic stabilization and growth. More serious still is the fact that this crisis is triggering social and political problems across Africa, raising questions about the prospects for peace and stability in African countries.

The low-income countries should continue to maintain macroeconomic stability and pursue structural reforms, with a view to improving productivity and efficiency in the agriculture and energy sectors, as well as diversifying and enhancing the ability of their economies to withstand exogenous shocks. However, in this highly troubling context that seems likely to continue, the international community must pay particular attention to those countries.

In the short term, the affected countries need to be able to respond at the budgetary level to protect the most vulnerable populations. Accordingly, it is essential that the IMF ease the conditionalities of programs supported by the Poverty Reduction and Growth Facility (PRGF), the Policy Support Instrument (PSI), and the stand-by arrangement for middle-income countries. A one-size-fits-all solution would not be realistic, of course, but we urge the Fund to review the preparation of these programs. It would also be advantageous to increase the limits on access to Fund resources, particularly when rising food, energy, and oil prices weaken the fiscal position and the balance of payments.

In the medium term, the Exogenous Shocks Facility (ESF), which has never been used since its inception, should be reassessed. It is essential that this instrument respond flexibly to the changing needs of eligible countries.

II. Reform of the IMF:

a) Quota and voice reform

All the IMF quota and voice reforms currently under consideration by the Board of Governors are, in our opinion, consistent with the Singapore Resolution and will make it possible to take further steps forward. This is an important step toward strengthening the governance of our institution and improving its representativeness. We therefore support all these reforms.

In particular, we heartily welcome the tripling of **basic votes**, as this represents significant progress toward the objective of preserving the voting power of the low-income countries as a group.

We appreciate the cooperative nature of the Fund, as evidenced by the inclusion in the **quota formula** of a hybrid GDP variable, which takes account of the market value as well as the actual economic activities of member countries. The inclusion of a compression factor and the waiver by some advanced economies of the additional quota shares to which they would have been entitled, also speaks to that cooperative spirit.

The proposed amendment to the IMF Articles of Agreement, aimed at allowing chairs representing a large number of countries to appoint a **second Alternate Director**, is also consistent with the Singapore Resolution.

Nevertheless, we are aware that more work is needed to further improve the IMF quota and voice model. For us, the largest remaining concern is the need to reassess **the definition of variability.** The proposed measure does not appropriately reflect a country's vulnerability and potential demand for Fund resources. Indeed, under this measure, the advanced countries paradoxically become the most vulnerable members and are more in need of IMF resources than low-income countries. Consequently, the definition of variability needs to be reassessed.

The timetable for the adoption of all the reforms by the 2008 Annual Meetings remains appropriate, and the results of any additional work that may prove necessary can be incorporated subsequently.

b) New income model for the IMF

Expansion of the IMF's investment authority

We applaud the proposed amendment to the IMF Articles of Agreement to expand the Fund's investment authority. We also support the provision aimed at ensuring that all profits from the sale of gold acquired under the Second Amendment to the Articles of Agreement be placed directly in the Investment Account, to meet the income objectives while at the same time preserving the real long-term value of such resources.

Expanding the IMF's investment authority requires enhanced risk monitoring and audits. We note the key role envisaged for the Executive Board in determining investment policies and in monitoring their implementation. In view of the potential conflict of interest associated with Fund surveillance activities, it is important to put in place appropriate institutional and legal safeguards to prevent such occurrences.

Administrative expenses associated with the PRGF-ESF Trust Account

The withdrawal of a contribution from the PRGF-ESF Trust Account available to low-income countries should raise concerns at a time when many of those countries have benefited from debt relief and the international community is attempting to mobilize additional concessional financing to keep those countries from falling back into the unsustainable debt trap. Any proposal tending to undermine the additionality of such resources should, in our opinion, be reexamined. We are grateful to those who continue to express the same opinion.

In these circumstances, we believe that the Fund should continue to bear its share of the costs associated with providing support to low-income countries, particularly the administrative expenses associated with the PRGF-ESF Trust Account. If this proposal were to achieve the requisite consensus, we would be prepared to support it, but only if the lending capacity of the Trust Account were preserved and the reimbursement of these expenditures to the General Resources Account were suspended should that capacity be diminished.

c) Strategic outlook of the medium-term budget

We share the view that the IMF needs to be refocused and modernized in order to increase its relevance for the member countries, including the low-income countries.

Regarding **surveillance**, we believe that the Fund should concentrate on activities that are consistent with its primary mandate, particularly the analysis of macro-financial links, understanding of the relationships between national economic policies and international macroeconomic and financial developments; the contribution of a multilateral perspective to bilateral surveillance; and the deepening of the Fund's expert knowledge of financial markets.

In fulfilling its **role in the low-income member countries**, the Fund should focus on those macroeconomic issues that are of critical importance and improve its interactions with development institutions. However, the resources available to those countries should remain sufficient to help them cope with vulnerabilities and sources of macroeconomic and financial instability.

The recent meeting of top African leaders with the Managing Director in Ouagadougou illustrates the value that the African countries attach to the IMF's advisory and assistance role. The progress made by our countries may be undermined unless account is taken of the need for the Fund's continuing involvement in the low- and middle-income countries. Macroeconomic stabilization remains a priority and our countries need help in attaining the status of emerging markets. There is also a need to strengthen the assistance provided to post-conflict countries and those confronted with institutional weaknesses that have a macroeconomic impact.

On the subject of **capacity building**, we are concerned by the reduction in the resources set aside for this activity, considering the importance of technical assistance for the low-income member countries. Ultimately, technical assistance can significantly reduce the cost of surveillance, as the increased technical capacities of the countries would improve their observance of the surveillance standards, reduce the need for frequent surveillance missions, and enhance the Fund's effectiveness. In this connection, we would like to stress the pivotal role of the IMF Institute and of the regional technical assistance centers. It would be advisable to ensure that the resources of the IMF Institute remain sufficient to help low-income countries deal with the capacity constraints they face.